

RUCO WORKSHOP ON RESTRUCTURING

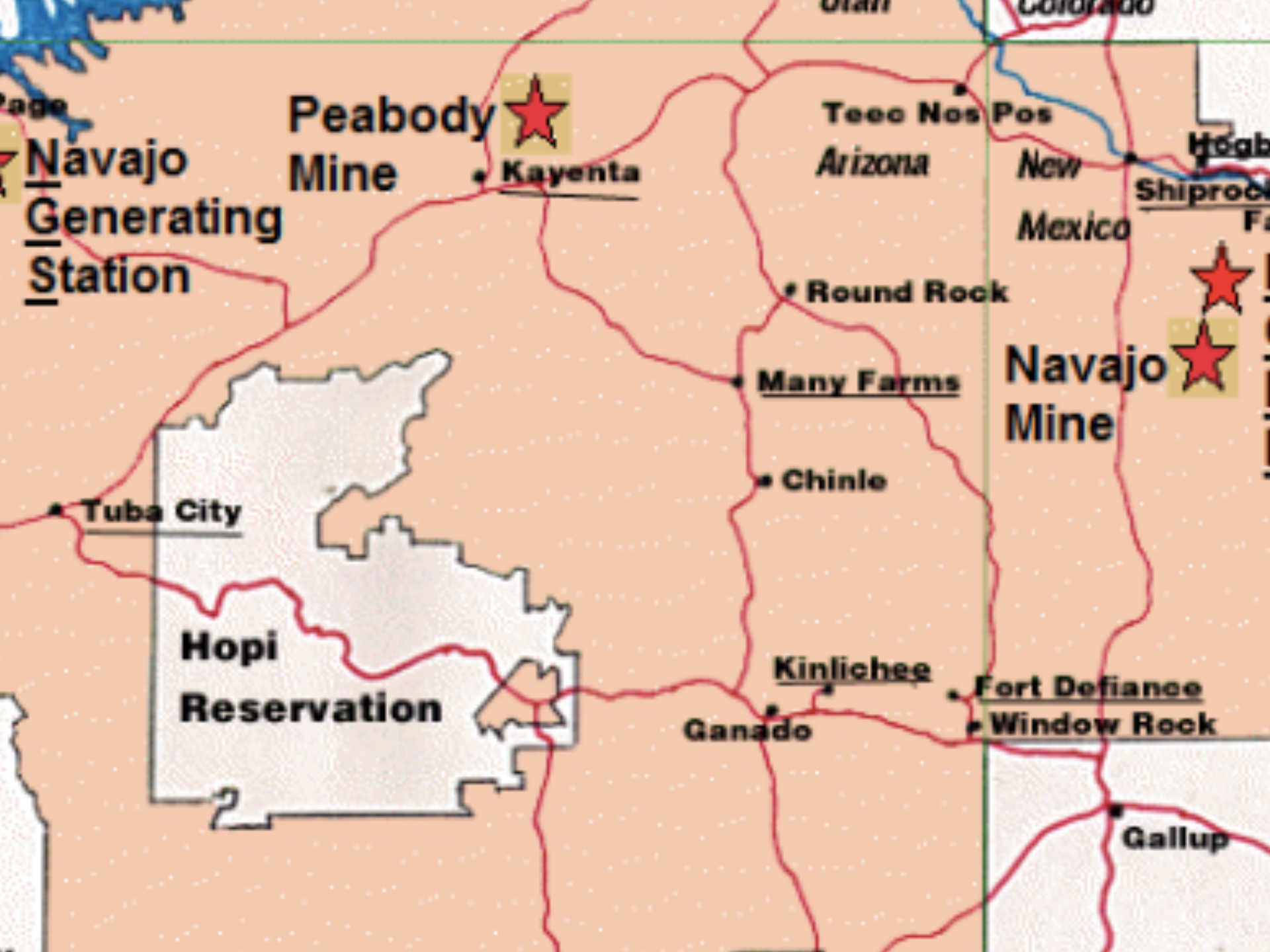
The Restructuring Proposed Here Is Not
Deregulation; It Is Re-Regulation. And It Will Harm
The Navajo Nation, Arizona Ratepayers, And The
Wider Southwest Region.

Basic Facts About The Navajo Nation And Its Relationships With Arizona

- Navajo Reservation Occupies Greater Than 17 Mil. Acres.
- Nearly 12 Mil. Acres Overlap With Arizona.
- More Than 320,000 Enrolled Members.
- Approximately 150,000 Members Reside in Arizona –
- (With about another 122,000 residing in the New Mexico portion of the Navajo Reservation – primarily in San Juan, McKinley, and Cibola Counties, which are right across the line from Arizona.)



Navajo Nation



Page

**Navajo
Generating
Station**

**Peabody
Mine**

Kayenta

**Teeo Nos Pos
Arizona**

**New
Mexico**

Hogb

Shiprock

Fa

Round Rock

Many Farms

Chinle

**Navajo
Mine**

Tuba City

**Hopi
Reservation**

**Kinlichee
Ganado**

**Fort Defiance
Window Rock**

Gallup

Navajo Mine and FCPP; Kayenta Mine and NGS

- Navajo Mine and FCPP employ approximately 1,000 workers (~85% Navajo).
- Kayenta Mine and NGS employ approximately 1,000 workers (~85% Navajo).
- Each of these workers makes 3-to-4 times the Nation's median household income, and between 1.5 and 2 times the median household income for northern Arizona.
- These workers and third-party vendors that provide goods and services to these operations purchase their basic necessities and big-ticket items from border towns and other nearby communities.

Re-Regulation Will Kill These Jobs, and All of the Border Towns Will Suffer

- These 2,000 workers will lose their jobs.
- First, Navajo Mine and FCPP workers; and second, Kayenta Mine and NGS workers.
- These workers and the families they support (as well as those of third-party vendors) will no longer purchase goods and services from the merchants in border towns.
- This means places like Flagstaff, Winslow, and Holbrook will lose the velocity or turnover of each of their dollars spent on the order of \$7 for every \$1.

Re-Regulation Will Result In Huge Costs, and Ratepayers Will Suffer.

- This restructuring will require the creation of all new state and federal legal infrastructures (e.g., for new RTO).
- Unless new generators are co-located with existing generators—namely, NGS and FCP—and the change-over is seamless, this will require creation of a massive new transmission network.
- This will exacerbate the economic downturn; and at the same time, the costs will fall to small business, medium-size business, and household ratepayers.

This Is Not 'Deregulation;' This Is 'Re-Regulation' Of The Electric Market.

- While deregulation is the reduction of governmental interference in the market, this proposed restructuring will increase government interference in the market; which will bring all of the associated costs and burdens with it.

What is Deregulation?

- Deregulation is the removal or decrease of governmental restrictions on a given market.
- Deregulation is designed to allow for increased competition (atomistic competition) in the market, which is to result in lower prices/rates for electricity.
- Deregulation is designed to diminish a body's (e.g., a utility's and/or government regulator's) power to set price.
- Deregulation is designed to increase the number of firms entering and participating in the market.
- Deregulation is also designed to (or is supposed to) enhance competition (rivalry) among the firms in the market.

What is Deregulation? [Continued]

- Deregulation is also designed to reduce the size and scope of the government, because of a smaller regulatory bureaucracy being necessary to enforce the law.
- Deregulation is also supposed to result in less taxes and regulatory burdens for producers and consumers of electricity.
- Deregulation of an electric market is supposed to result in lower electric prices/rates (through decreased average and marginal costs), because of the enhanced competition and lower taxes and fees associated with the regulatory bureaucracy.

What Is Re-Regulation? [Continued]

- Re-regulation is merely reorienting the regulatory scheme and governmental restrictions on the market.
- Re-regulation does not reduce the relative ability to set price (by a firm and/or the government).
- Re-regulation increases the size of government and pervasiveness of regulation.
- Re-regulation increases the associated costs of government.
- The burdens of the regulatory bureaucracy (e.g., taxes, fees, transactional costs of compliance) remain or increase.
- The government and the producers of electricity pass these costs to ratepayers, who then have reduced purchasing power.

This is Re-Regulation; Not Deregulation.

- As demonstrated by the comments of the proponents, this proposed restructuring will simply reorient governmental restrictions and (the increased) regulatory burdens.
- This restructuring will require the creation of a massive, expensive, and inefficient bureaucracy.
- This will increase the size of government, and the multiply the burdens of compliance with all of the new regulations.
- These burdens will flow to small and medium-sized businesses and household ratepayers.

This is Re-Regulation; Not Deregulation.

[Continued]

- The proposed re-regulation will not diminish burdens on the market.
- The proposed restructuring will not diminish the government's relative power to set price through the regulatory mechanism.
- The proposed restructuring will not diminish (more than nominally) a producer's relative impact on prices in the electric market.
- The proposed restructuring will not enhance overall market competition (understood as rivalry between multiple new and existing firms).
- Large market share and presence will simply shift to another sector: intermediaries between the oligopoly of producers and groupings of retail ratepayers.

Conclusion.

- Creating all of the new physical and legal infrastructure will be expensive for ratepayers.
- Households and small and medium-size firms will absorb the lion's share of the burdens and costs associated with all of this restructuring and re-regulation.
- Thus, this is re-regulation, and not deregulation; and this will be contrary to the overall public interest in Arizona and the Navajo Nation.